Chapter 9: Google Goes Public
Chapter 10: Google Today, Google Tomorrow

Neel Vora
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Should Google go Public?
Chapter Nine of "The Search: How Google and Its Rivals Rewrote the Rules of Business and Transformed Our Culture" focuses on the manner in which Google dealt with the possibility of becoming a **publicly traded company**.

During 2003, there was plenty of speculation that Google would become a publicly traded company. Many valued a Google IPO at $16 billion dollars due to phenomenal financial reports, which estimated 2003 revenue at $1 billion and its profits at $300 million. In addition, reports of Google's success were a signal to Microsoft and Yahoo that Google was becoming one of their primary competitors. They began to direct more money and more effort at combating the company, and if Google hoped to remain competitive it would be in their best effort to raise capital by going public.

The way in which a company goes public is called an **Initial Public Offering (IPO)**. An IPO is the first sale of a company's common shares to investors on a public stock exchange, such as NASDAQ or the New York Stock Exchange (NYSE). The primary purpose of an IPO is to raise **capital**, or money, for the corporation. Many companies feel that the disadvantage of being listed publicly on a stock exchange and being owned by thousands of investors is that it imposes heavy regulatory compliance and reporting requirements by the United States Security and Exchange Commission (**SEC**).

Google, from the very beginning, was adamant in remaining a **privately owned** company. Eric Schmidt, CEO, said that as long as the company is generating cash successfully, there would be no need to go public. In addition, Google had prospered as a private company, and its founders were worried that the company would be forced into a mindset of short-term thinking, a trait common to many of the companies listed on stock exchanges. Throughout 2003, they toyed with various unsuccessful strategies to remain privately owned. Google was bound to become publicly traded for two reasons. First, almost every single company that is funded by **venture capitalists** either results in an IPO or in bankruptcy. The IPO is when the venture capitalists really get their return on investment. Second, there was an obscure SEC regulation that would force Google to start report as if they were a publicly traded company because they had offered a certain number of stock options to its employees.

Google's Initial Public Offering
Google finally decided to become public in early 2004. However the process would turn out to be far from easy. The first issue that they underwent was the debate over using an investment bank or using an auction method in order to file for public offering. Most companies use the **investment bank method** during their IPO, in which they work with a specific investment bank, such as JPMorgan,

which evaluates the company and sets a price for the IPO. The problem with this method is that this tends to favor the bank and its partners because they often set the opening price lower than what they actually estimate it to be on the market. This is how they will receive a **pop** on their investment, they and their clients will purchase thousands of shares at the initial price, and when the IPO occurs the price will dart up, and they immediately get a handsome return on their investment. Google was more inclined to use the **auction price method**, in which they conduct a public auction before the actual IPO to set a price range for the stock before it goes public. This tends to favor the company because the price is fairly set by market forces. Google ended up using a **Dutch Auction**, which is essentially a public auction that starts at a high price and is lowered until someone is willing to pay for the shares at that price.

In Google's **S1**, or formal public offering document, they were set to sell $2,718,281,828 worth of shares (this number represents the value of e). They named the Google S1 an "Owner's Manual for Google's Shareholders". In this document, they outlined how Brin and Page planned on running Google after being publicly owned. Throughout the document, they emphasized that Google was not a conventional company and the founders would always know what would is best for Google. This attitude was reflected in its proposed corporate structure that protected Google's ability to "innovate and retain its distinctive characteristics". They proposed a **Dual Class Shareholding Structure**, in which the founders and executives have far more control than the common shareholder. This structure is common in some media companies, such as the Wall Street Journal, but was unprecedented for a company such as Google. Brin and Page specifically explained that they planned on having enough stocks to allow them to have voting power equal to ten time of all of the other shareholders combined.

The S1 document really angered Wall Street because it represented a destruction of traditional **share selling**, **corporate governance** (dual class structure), **investor communications**, and **management structure** (Brin and Page would have as much power as the CEO). The tone of the document really angered Google's venture capitalist investors. Analysts and investors were surprised and scoffed at the S1 proposal. However, the document actually showed tremendous numbers in the income statement. Some numbers that were included were that profits in 2003 were over $100 million, and over $.25 billion in 2004. In addition they had generated over $500 million in cash and were running at operating margins of 60%, which is unheard of for companies of Google's size.

There were other factors that contributed to Google's struggle to have its initial public offering after deciding they would become public. Google's **bad reputation** increased due to their increased secrecy around the company, their slow amendments to the S1 document, and an interview with Playboy that was published merely weeks before the IPO, which was extremely bad for Google's image. The Google founders continued to have reluctance about becoming a public company throughout the process. In addition, Google faced continued

relentless scrutiny from the SEC. Google had undergone overwhelming growth that was unevenly spread and managed. If they were to become a public company, there would be **reporting requirements** that would require a great deal of restructuring. One example was in their Advertising department which has millions of mini-transactions per days, due to the pay per click functionality of Adwords. The department was not set up to report the results of the transactions in an easy way, so it would have to be restructured. Finally, the company maintained a high estimated price range of $108-$135 which was considered an overestimate by many analysts.

Google finally conducted its public auction on August 13, 2004 amidst many bad conditions, including weak stock markets, low oil prices possibly indicating an oncoming recession, and the possibility of terrorism at the opening of the Olympics that night. The price range was revealed to be $85 to $108 (much lower than the estimate). This new range would lower the number of shares offered to the public by 6.1 million. Google was officially public on August 19, 2004 at a price of **$85 a share**.

One Google was public, the results were outstanding. The stock almost reached $100 by the end of the day, topped $200 by November, and topped $300 the next summer. In addition, Google continued to innovate and release products successfully despite the IPO process distraction. The quarterly reports were extremely impressive.

Post-IPO Google

Google had much to do once they finished their IPO. As tremendous responsibility was placed on the founders and CEO, they were nervous because their main intent was to innovate and create technological products. They conducted a **Strategic Review** in order to determine what next steps to take. Brin and Page got together and wrote the **Tablets,** which were a high value declaration of what makes Google itself. In addition, they created a new Post-IPO Organization, which consisted of various core groups. First and second were the **Core Search** group and **Advertising Products** group, which really made up their core business and focus as a company. Third, there was a **"20 Percent"** group which included products, including Gmail, Google News, and Orkut, which were important but not Google's primary focus. Finally, there was a "**10 Percent"** group, which consisted of projects, such as Google Keyhole and Picasa, that are in the development phase and really strays from Google's core businesses. This new organization empowered the company to execute on its two core businesses, while the other groups could pursue projects that could potentially turn into core businesses or useful products.

However, in Post-IPO Google, Brin and Page still firmly were in power. Brian Reid (a former senior manager suing Google for age discrimination) said that "Google is a monarchy with two kings". He claimed that Eric Schmidt, CEO, was a puppet of Page and Brin who run the company with an iron hand. He also described Google's culture as "youth obsessed". Though the report was exaggerated, it was clear that Brin and Page were firmly in control of their company despite it being publicly owned.

However, this power structure seemed to be treating them extremely well. They are the fastest growing company of all time, having 400,000% five-year revenue growth.

Google's Competition: Yahoo!

Google's primary competition is **Yahoo**, and potentially Microsoft in the upcoming years. Yahoo and Google have several similarities which makes it interesting to compare them. Each company had humble beginnings being founded by two Stanford PhD candidates. Both companies focused its efforts on search. Google and Yahoo both have had great success in terms of growth, their IPO, and their market cap. In addition, both companies have similar campuses and environments.

However, there are many differences between the companies which clarify the different approaches each takes. First, Yahoo's founders are not nearly as powerful as Brin and Page, as they tend to yield most responsibilities to the CEO. Second, Yahoo has actually experienced failure: its stock dropped from highs of more than $500 to lows of less than $10. This experience definitely humbled Yahoo. Google still has yet to fail. Third, it has been a lot easier to do partner business with Yahoo than Google. As a relatively new successful company, an attitude of arrogance and insularity pervades at Google, which translates in them being a difficult partner to work with.

Differences between the companies are also manifest in the results it will return for a query such as "usher". Google has a predictable set of organic results that utilizes a diversification algorithm so that the first few results would be able the singer, and the rest other possible uses of the term, including Poe's "Fall of the House of Usher". In addition, the ads are separated from the results, as the Adwords results are displayed on the right side of the screen. Yahoo, on the other hand, immediately displays an "also try" feature which offers other queries that contain the term usher and could be potentially useful. [Note: Google now does the same by offering a "searches related to:" feature] In addition, they are more willing to integrate ads and its own services into the results. Yahoo's search shortcut is an attempt to bring all the pertinent information and needs about Usher into one place. Yahoo links to its Launch music service, which allows a user to download, watch, and purchase music. In addition they link to Yahoo Shopping and Yahoo News. After all of these results, come Yahoo's own organic search results.

These differences in search results are reflective of differences in Search Intent for the two companies. Yahoo tends to steer searchers towards its own editorial services in order to satisfy searcher intent. In addition, they are more willing to have overt **editorial** and **commercial** agendas. They have a much more aggressive approach to commercialization. Yahoo is also more willing to allow humans to intervene in search results. Their also try feature reflects their editorial decision to track and connect search patterns. This could be expected because Yahoo has always been a Media Company, which started out as a human controlled directory. Yahoo can be characterized by **"Human's First, Technology Second"**.

Google, as opposed to Yahoo, has a very distinct search intent. First, they have always been repelled by the idea of becoming a content or editorially driven company. Ever since the start, they are reluctant to integrate their commercial agenda into their search results. Google focuses on technology, such as algorithms and computations, over using humans. Google can be characterized as a **Media-Driven Technology Company**, with **"Technology First, Humans Second"**.

Google as a Middleman and a Media Business

Google has tried to establish itself as a **"super-distributor"** of content. Essentially, they want to index other people's content and enable millions of consumers to search and find it, then be able to buy it through Google. However, being this middleman puts Google in a tough spot, especially when someone is searching for a general term. Which artist do you list first when a user searches for "hip-hop"? Yahoo would lean towards whoever pays the most as long as it protects the integrity of the results. Google on the other hand is probably going to try to find an "objective" answer with an algorithm possibly based on PageRank and quality score. This could prove to be difficult and not necessarily the best way to generate revenue.

Battelle argues that Google is slowly transitioning into becoming a **Media business.** Google already mediates information and services and its revenue steams include advertising and subscription (an upcoming product). Google's reluctance to tie commerce into its media products actually gates innovation in search results space. Examples of this are Google News (which lacks a business model) and Froogle (which only uses Adwords to generate revenue, it does not work with any vendors). Battelle believes that if a consumer wants to shop or browse quality news results, it is okay to make money on it. However there are signs of Google's realizing the potential of new revenue. First, Google Print, their effort to digitize millions of books, could be a hugely successful business idea if they are able to sell premium content and books with expired copyrights to customers. Second, they are slowly becoming a portal as Google users can now customize their homepages, much like Yahoo.

Google's Future

Google seems to have a bright future in regards to retaining its innovative employees. Brin and Page created the **Founder's Award Program**, an incentive program that promises millions to teams that create projects which significantly add value to Google. Many times employees leave a company and create an innovative product in hopes of being purchased by a bigger company for millions of dollars, (i.e. YouTube was purchased by Google for $1 billion).

Battelle believes that Google's biggest challenge in the future is to continue to **innovate** in a focused and market-driven fashion. Some of their upcoming innovations would be the digitization, indexing, organization, and access of one's personal information. However, Eric Schmidt starts to shed light on the real potential of Google when he explains that he eventually believes that Adwords could be so far reaching that every single product could be advertised and regulated in the appropriate market within Google. This shows that the company would like to provide a platform that mediates supply and demand for essentially everything in the world economy.

Battelle ends the chapter with a discussion about the possibility of creating a **Web Operating System**. Since Google's goal has always been to organize the world's information and make it accessible, he believes the operating system is a great means of doing so. He argues that Google could deliver every possible service that exists on a computing platform through this concept. One could store everything on one platform known as the **Google Grid**. This Web Operating System reflects the unlimited potential of Google, in that the company could one day become things such as a combination of Microsoft, eBay, Amazon, and maybe even extend itself to becoming a phone company, cable provider, or university. Google truly has unlimited potential, and has the opportunity to fully revolutionize the world.